

ACCOUNTING PROCEDURE

TOPIC: Section 8--Capital Assets 1.1	EFFECTIVE DATE: 10/31/83
TITLE: Use of Capital Account Codes	REVISION DATE: 9/24/04
AUTHORIZED BY: Cheryl Thompson, Financial Manager	PAGE 1 OF 2

**BACKGROUND**

Appropriate capital account codes should be used to encumber and record expenses. Amounts should be included in the capital asset and equipment records for purchases that meet the criteria given below.

The Department of Administration *State Accounting Manual* indicates that a unit purchase price of \$5,000 or more and a useful life of two years is the determining factor for coding an expense to a capital account code rather than to supplies.

The following criteria, taken from the Department of Administration *State Accounting Manual*, is provided to further assist in the identification of those items that should be classified as capital expenses.

1. The asset is tangible in nature, complete in itself, and is not a component of another item. (Refer to the discussion on component items under Procedures-3c below for clarification).
2. The asset is used in the operation of the State's activities.
3. The asset has a useful life of two years or more and provides benefit throughout that period.
4. The individual asset is of significant value that is; it has a unit cost of \$5,000.00 or more.

**PROCEDURES**

1. Items that meet criteria 1, 2, 3 and 4 above should be coded to the appropriate capital account code and included on the capital asset records as an addition.

Computer software and software site licenses, meeting criteria 4 above, should be included on the capital asset records as an addition. Annual software maintenance contracts are not to be included as a capital asset.

2. Items which meet criteria 1, 2 and 3 above, have a unit cost of less than \$5,000 and do not meet the configuration criteria in 3 (c) below should generally not be included on capital asset records.
3. A capital account code should be used for an item that has a unit cost of less than \$5,000 if:
  - a. The item was specifically budgeted as capital in the biennial budget request. The item should be included on the capital asset

records as an addition only if the item meets the configuration criteria in 3(c) below.

- b. The item is an ancillary cost, such as freight, installation or other costs incurred to acquire a capital item and prepare it for use. These expenses should be recorded in a capital account and on the capital asset records as part of the related purchase.
- c. The item will be used with and become an essential part of a group, system or configuration with a total value of \$5,000 or more.
  1. Systems, such as computers, may consist of a number of individual items. Monitors, memory boards, token rings, etc. which function as a group, system or configuration should all be coded to a capital account, even if, purchased separately, some items may cost less than \$5,000. Further, these systems should be included on the capital inventory even if some items were coded to a non-capital account. For example, a \$2,000 monitor purchased from a supplies account and used with a \$3,000 microcomputer, purchased from a capital account, should be included on the capital inventory as a \$5,000 computer system. Immaterial additions (generally less than \$100) to a configuration need not be coded to a capital account or included on the capital asset records.

Note: This situation applies only to the initial acquisition of the system - generally all the components are purchased within the same fiscal year.
  2. Current additions to an existing system, purchased in a prior fiscal year, with a total cost of less than \$5,000, generally should not be classified as a capital expense and need not be included on the capital asset records as an addition to the existing system.

#### REFERENCES

DOA State Accounting Manual

[http://www.doa.state.wi.us/pagesubtext\\_detail.asp?linksubcatid=458&linkcatid=140&linkid=1](http://www.doa.state.wi.us/pagesubtext_detail.asp?linksubcatid=458&linkcatid=140&linkid=1)

#### CONTACTS

David Corbett  
Special Services and Financial Statements  
(608) 267-3903

Sally Acuff, Chief  
Special Services and Financial Statements  
(608) 266-9576